

MANSFIELD DISTRICT COUNCIL

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 This Charter defines the Internal Audit's Service's role within Mansfield District Council. The Charter complies with the Public Sector Internal Audit Standards (PSIAS), The Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Government Application Note for the PSIAS, the Accounts and Audit Regulations 2015 and the Council's Financial Regulations.
- 1.2 The Council's Audit and Information Assurance Manager will fulfil the role of the "Chief Audit Executive" as stated in the PSIAS with specific responsibilities for ensuring full compliance with the Charter, PSIAS and CIPFA's Application Note
- 1.3 The role of the "board" as stated in the PSIAS will be fulfilled by the Council's Audit Committee unless specifically stated otherwise within the Charter
- 1.4 The role of "senior management" as stated in the PSIAS will be fulfilled by the Council's Corporate Leadership Team (CLT) unless specifically stated otherwise within the Charter
- 1.5 The Audit and Information Assurance Manager will be responsible for ensuring full compliance with CIPFA's statement on "The Role of the Head of Internal Audit"
- 1.6 The Internal Audit Service will work closely with management to ensure that disruption to services as a result of the engagements carried out is minimised and that the audit process is open and transparent
- 1.7 The Internal Audit Service will involve management at all stages of the audit process from planning to reporting to ensure that added value to the Council is maximised
- 1.8 The Audit and Information Assurance Manager will be responsible for reviewing the Charter annually and for consulting with CLT prior to being approved by the Audit Committee
- 1.9 The Audit and Information Assurance Manager will be responsible for detailing all the required policies and procedures of the Internal Audit Service in an electronic Audit Manual and for reviewing and revising it at least annually to ensure full compliance with the requirements of the PSIAS and the Local Government Application Note and this Charter

2. Regulatory Basis for Internal Audit

- 2.1 The requirement for an Internal Audit function is contained in Regulation 5 of the Accounts and Audit Regulations 2015, which requires the Council to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”

Proper practices have been stated by the Department of Communities and Local Government (DCLG) as requiring full compliance with both PSIAS and CIPFA’s Local Government Application Note.

- 2.2 The Regulations also add that the Council is required to:

“make available such documents and records as appear to that body to be necessary for the purposes of the audit and supply the body with such information and explanation as that body considers necessary for that purpose” and

“Ensure that, each financial year, a review of the effectiveness of the system of internal control is carried out and that an annual governance statement is prepared”.

- 2.3 Internal Audit also assists the Section 151 Officer (Director of Commerce and Customer Services) and the Monitoring Officer (Director of Governance) in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 and Section 5 of the Local Government and Housing Act 1989 respectively

3. Definition of Internal Auditing

- 3.1 “Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve a Council’s operations. It helps a Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

4. The Mission of Internal Audit

- 4.1 The Mission of Internal Audit is to enhance and protect Mansfield District Council’s organisational value by providing risk-based and objective assurance, advice and insight.

5. **Core Principles for the Professional Practice of Internal Auditing**

- 5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness
- 5.2 For an internal audit service to be considered effective, all Principles should be present and be operating effectively. The Audit and Information Assurance Manager is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles as stated below:
- Integrity
 - Competence and due professional care
 - Objectivity and freedom from undue influence (independence)
 - Alignment with the strategies, objectives and risks of the organisation
 - Adequate positioning and resourcing
 - Quality and continuous improvement
 - Effective communication
 - Provision of risk-based assurance
 - Insight, proactivity and future-focus
 - Promotion of organisational improvement

6. **Code of Ethics**

- 6.1 All internal auditors will conform to the Chartered Institute of Internal Auditors (CIIA) Code of Ethics, which promotes an ethical, professional culture. It does not supersede or replace an internal auditor's own professional body's Code of Ethics or those of the Council as stated in its Corporate Values and Employee Code of Conduct
- 6.2 Internal auditors will also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*
- 6.3 The Audit and Information Assurance Manager will regularly remind the audit team of their professional and ethical responsibilities
- 6.4 All internal auditors will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional ethical standards and guidelines as issued by relevant professional institutions
- 6.5 The requirements of the key ethical principles of Integrity, Objectivity, Confidentiality and Competence are detailed below:

Integrity

Principle

- 6.6 The integrity of internal auditors establishes trust and provides the basis for reliance on their judgement

Rules of Conduct

- 6.7 Internal auditors will:
- perform their work with honesty, diligence and responsibility
 - observe the law and make disclosures expected by law and the profession
 - not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Council
 - respect and contribute to the legitimate and ethical objectives of the Council

Objectivity

Principle

- 6.8 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined
- 6.9 Internal auditors will make a balanced assessment of all relevant circumstances and will not be unduly influenced by their own interests or by others in forming judgements

Rules of Conduct

Internal auditors will:

- not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council
- not accept anything that may impair or be presumed to impair their professional judgement
- disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review

Confidentiality

Principle

- 6.10 Internal auditors will respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so

Rules of Conduct

Internal auditors will:

- be prudent in the use and protection of information acquired in the course of their duties
- not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council

Competency

Principle

- 6.11 Internal auditors will apply the knowledge, skills and experience needed in the performance of internal auditing services

Rules of Conduct

Internal auditors will:

- engage only in those services for which they have the necessary knowledge, skills and experience
- perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing
- continually improve their proficiency and effectiveness and quality of their services

7. Purpose, Authority and Responsibility

Objectives

- 7.1 The main objectives of the Internal Audit Service are:

- To review, appraise, advise and make recommendations in respect of:
 - The extent to which assets and interests are accounted for and safeguarded from loss
 - The soundness, adequacy and application of internal controls

- The suitability and reliability of financial and other management data, including aspects of performance measurement
 - The robustness of corporate governance arrangements
 - The effectiveness of value for money assurance arrangements
 - The level of compliance with the Council's Financial Regulations, Contract Procedure Rules, Local Code of Corporate Governance, Anti-Fraud Strategy and Whistle-blowing Code
- To maximise the added value it provides to the Council by an effective partnership with management to deliver an effective and efficient internal control framework and governance arrangements
 - To produce a comprehensive anti-fraud framework, deliver a robust anti-fraud plan of anti-fraud testing and report on the effectiveness of the Council's anti-fraud arrangements
 - To contribute to and support the Governance directorate in achieving its objective of ensuring the provision of and promoting the need for robust corporate governance arrangements
 - To contribute to and support the Commercial and Customer Services directorate in achieving its objective of ensuring the provision of and promoting the need for sound financial systems
 - To advise on major new projects and initiatives to help ensure risks are properly identified and evaluated and appropriate controls are built in
 - To investigate all suspected frauds and irregularities other than housing benefit / council tax reduction scheme fraud. The DWP is now responsible for investigating benefit fraud cases
 - To agree new systems for maintaining financial records or records of assets or changes to such systems
 - To provide awareness training for both employees and members on corporate governance arrangements as required
 - To support the work of the Audit Committee

The Audit and Information Assurance Manager also has the following specific responsibilities:

- To lead on corporate risk and opportunity management
- To lead on information assurance and data transparency

- To act as the Council's key contact for the National Fraud Initiative

- 7.2 Internal Audit will actively promote good practice identified either from carrying out reviews at the Council or by researching external reports or publications. It will also identify and ensure provision of opportunities for corporate learning by quarterly meetings with CLT and through audit improvement workshops as required
- 7.3 These objectives will be delivered through maintaining an excellent standard of Internal Audit Service that meets the needs of the Council and specifically supports the Statutory Officers and the Audit Committee in discharging their roles and responsibilities

Reporting Lines and Relationships

- 7.4 Although the Internal Audit Services is responsible to the Director of Governance, it is independent in its planning and operation and as such, as detailed in the Council's Financial Regulations, has unrestricted coverage of the Council's activities and related records and assets. In addition, Internal Audit, through the Audit and Information Assurance Manager, has unrestricted access to:

- The Chief Executive
- Directors
- Executive
- Audit Committee
- All authority employees

Authority

- 7.5 Internal auditors have the authority to:
- access Council premises or personnel at reasonable times
 - access all assets, records, documents, correspondence and control systems
 - receive any information and explanation considered necessary concerning any matter under consideration
 - require any employee of the Council to account for cash, stocks, plant and equipment, vehicles or any other Council asset under his or her control
 - access records belonging to third parties such as contractors, when required

8. **Independence and Objectivity**

- 8.1 Internal auditors must remain independent, therefore the Internal Audit Service is organised so that it is independent of the activities that it audits and does not have any operational responsibilities. It can therefore provide impartial and unbiased professional opinions and recommendations, with reports being issued in the name of the Audit and Information Assurance Manager
- 8.2 The status of the Audit and Information Assurance Manager is sufficient to allow the effective discussion of audit plans, findings and improvement plans with senior managers in the Council
- 8.3 The Audit and Information Assurance Manager meets on a regular basis with the Chief Executive, Section 151 Officer and Monitoring Officer as the key officers with statutory responsibilities in relation to internal control and governance arrangements
- 8.4 The Audit and Information Assurance Manager will meet with CLT at least quarterly to ensure that the Internal Audit Services is addressing the appropriate risk areas and to ensure that an excellent service is being delivered with areas for improvement being identified and addressed
- 8.5 Individual internal auditors are also required to declare any interest they have that could have an impact on their audit work and in addition are not allowed to assess specific operations for which they have had any responsibility within the previous year
- 8.6 Internal auditors are only allowed to carry out the same reviews on a maximum of two consecutive occasions in respect of high priority reviews in order to ensure objectivity
- 8.7 The Audit and Information Assurance Manager will report annually to the Director of Governance and the Audit Committee that independence and objectivity have been maintained. If this is not the case, disclosure will be made. This may be as a result of resource limitations, conflict of interest or restricted access to records

9. **Resource Management, Proficiency and Due Professional Care**

Resource Management

- 9.1 For the Internal Audit team to fulfil their responsibilities, it must be appropriately resourced in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk based Audit Plan. The mix of available knowledge, skills and other competencies will be considered once the Audit Plan is drafted to ensure that they are sufficient to deliver it and this will be confirmed annually to the Director of

Governance and the Audit Committee prior to approval of the Audit Plan by the Audit Committee

- 9.2 If resources are considered by the Audit and Information Assurance Manager to be insufficient to deliver the Audit Plan then actions to address the deficiency in resources will be agreed with the Director of Governance and approved by the Audit Committee
- 9.3 Where significant changes to the Audit Plan are required throughout the year, approval will be required from either the Audit Committee or Chairman of the Audit Committee after consultation with the Director of Governance

Proficiency

- 9.4 The Audit and Information Assurance Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced as required by CIPFA's statement on "The Role of the Head of Internal Audit"
- 9.5 Each job role within the Internal Audit structure has the required skills, competencies and qualifications specified within the approved job description and person specification
- 9.6 In line with the Council's policy, each member of the Internal Audit Team will receive an annual personal development review which will assess them against the required skills and competencies for the job role
- 9.7 To safeguard independence, the Audit and Information Assurance Manager's annual personal development review will include feedback from the Chief Executive and Chairman of the Audit Committee which will be considered as part of the review
- 9.8 Any identified individual training or development needs will be included in the annual service training plan and delivery of the agreed actions will be regularly monitored
- 9.9 The Audit and Information Assurance Manager is responsible for the recruitment of suitably qualified and skilled internal auditors in accordance with the Council's human resources policies and procedures
- 9.10 The Internal Audit team are also required to maintain a record of their continual professional development in line with their professional body

Due Professional Care

- 9.11 Internal auditors must exercise due professional care by considering the:
- extent of work needed to achieve the engagement's objectives
 - relative complexity, materiality or significance of matters to which assurance procedures are applied
 - adequacy and effectiveness of governance, risk management and control processes
 - probability of significant errors, fraud or non-compliance
 - cost of assurance in relation to potential benefits
- 9.12 Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work

10. Quality Assurance and Improvement Programme (QAIP)

- 10.1 The Audit and Information Assurance Manager will develop and maintain a QAIP that covers all aspects of the internal audit activity and will communicate the results of this programme to the Director of Governance and the Audit Committee as part of the annual assessment of the effectiveness of internal audit
- 10.2 Instances of non-conformance will be reported to the Director of Governance and the Audit Committee. Any significant deviations will be considered for inclusion in the Annual Governance Statement
- 10.3 The QAIP includes both internal and external assessments as detailed below:

Internal Assessment

- 10.4 The Audit and Information Assurance Manager will undertake on going monitoring of the performance of the internal audit activity, including agreed performance targets, as detailed in the Audit Manual
- 10.5 The Director of Governance will also periodically assess the quality of the internal audit activity

External Assessment

- 10.6 An external assessment will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the Council

- 10.7 The Audit and Information Assurance Manager will agree the arrangements and scope of this assessment with the Director of Governance, Audit Committee and the independent assessor

11. Managing the Internal Audit Activity

- 11.1 The Audit and Information Assurance Manager is accountable for effectively managing the Internal Audit Service to ensure that it adds value to the Council and its stakeholders. This is achieved when it provides objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management and control processes
- 11.2 The Internal Audit Service is delivered on the basis of an annual Audit Plan which is derived from a risk evaluation model assessment completed by the Internal Audit Service. The Audit Plan takes into account the fundamental need for the Audit and Information Manager to produce an annual internal audit opinion on the Council's assurance framework.
- 11.3 The Audit Plan is consulted on with CLT prior to approval by the Audit Committee
- 11.4 The Audit Plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the risk level for each planned audit engagement and balances the following needs:
- to ensure the Plan is completed in line with agreed performance targets
 - to meet the expectations of the service's key stakeholders
 - to identify and address local and national issues and risks
 - to take account of the Council's risk management framework and risk maturity
 - to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control
 - to deliver a comprehensive anti-fraud plan of probity testing focussed on key risk areas to both detect and deter theft and fraudulent activity
 - to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year
 - to deliver positive, timely input to assist corporate and service developments

12 Nature of Work

- 12.1 The Internal Audit Service contributes to the improvement of governance, risk management and control processes using a systematic and disciplined approach as detailed below:

Governance

- 12.2 The Internal Audit Service will assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the Council
 - ensuring effective performance management and accountability
 - communicating risk and control information to appropriate areas of the Council
 - co-ordinating the activities of and communicating information to the Audit Committee, external auditors and senior managers
- 12.3 The Internal Audit Service will assess whether the information technology governance of the Council supports the Council's strategies and objectives
- 12.4 The Internal Audit Service will annually gain assurance on the adequacy of the Council's strategic arrangements for achieving value for money and also consider when carrying out individual engagements the potential for improving the efficiency and effectiveness of existing governance arrangements

Risk Management

- 12.5 Determining whether risk management processes are effective is a judgement resulting from the internal auditor's assessment that:
- Council objectives support and align with the Council's mission
 - significant risks are identified and assessed
 - appropriate risk responses are selected that align risks with the Council's risk appetite
 - relevant risk information is captured and communicated in a timely manner across the Council, enabling employees, management and the Audit Committee to carry out their responsibilities
- 12.6 The Internal Audit Service will evaluate the potential for the occurrence of fraud and how the Council manages fraud risk
- 12.7 When assisting management in establishing or improving risk management, the Internal Audit Service will not actually manage any risks

Control

12.8 The Internal Audit Service will evaluate the adequacy and effectiveness of controls in responding to risk within the Council's governance, operations and information systems regarding the:

- achievement of the Council's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts

12.9 Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluations of the Council's control processes

13 Engagement Planning

13.1 An Assignment Control sheet and audit test programme, where appropriate, will be produced for each engagement, including the objectives, scope, timing and resource allocation which will be approved by the appropriate senior manager after consultation to ensure that service disruption is minimised. This will be completed prior to commencement of the engagement

13.2 In planning the engagement, internal auditors will consider:

- the objectives of the activity being reviewed and the means by which the activity controls its performance
- the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level
- the adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model
- the opportunities for making significant improvements to the activity's governance, risk management and control processes

13.1 Internal auditors will establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations

13.2 The scope of the engagement will include consideration of relevant systems, personnel and physical properties, including those under the control of third parties

13.3 In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed objectives. If internal auditors develop reservations about the scope

during the engagement, these reservations will be discussed with the client to determine whether to continue with the engagement

14 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor

- 14.1 The Audit and Information Assurance Manager will ensure that access to engagement records is restricted
- 14.2 Engagement records will be retained for six years
- 14.3 Engagements will be supervised to ensure objectives are achieved, quality is assured and individual auditors are developed

15 Communicating Results

- 15.1 Internal auditors will communicate the results of engagements as detailed in the Audit Manual. Communications will include the engagement's objectives and scope, completed audit test programme, where appropriate, as well as recommendations and implementation plans and will be supported by sufficient, relevant, reliable and useful information
- 15.2 When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results
- 15.3 Communications must be accurate, objective, clear, concise, constructive, complete and timely
- 15.4 The Audit and Information Assurance Manager is responsible for communicating the final results to parties who can ensure that the results are considered and appropriate agreed action implemented within the prescribed timescales
- 15.5 If a final communication contains a significant error or omission, the Audit and Information Assurance Manager will communicate corrected information to all parties who received the original communication
- 15.6 Internal auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing", only if the results of QAIP support the statement

15.7 The Audit and Information Assurance Manager will deliver an annual internal audit opinion report to the Audit Committee which will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and be included in the Council's Annual Governance Statement

15.8 The annual internal audit opinion report will incorporate:

- the opinion
- a disclosure of any qualifications to the opinion
- a summary of the work that supports the opinion
- a statement on conformance with the PSIAS and the results of the QAIP
- progress against any improvement plans resulting from the QAIP
- a summary of the performance of the Internal Audit Service against its performance measures and targets

16 **Monitoring Progress**

16.1 When the Audit and Information Assurance Manager concludes that management has accepted a level of risk that may be unacceptable to the Council, the matter will be discussed with the Director of Governance. If the Audit and Information Assurance Manager determines that the matter has not been resolved it will be communicated to the Audit Committee

16.2 The Audit and Information Assurance Manager will report progress in achieving implementation of the agreed actions relating to Internal Audit's recommendations to CLT and the Audit Committee on a quarterly basis

17 **Fraud**

17.1 Whilst it is not a primary role of internal auditors to detect fraud, they do have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

17.2 The Council's Financial Regulations require the Audit and Information Assurance Manager to be informed of all suspected fraud related irregularities. The Audit and Information Assurance Manager is then responsible for informing the statutory officers

17.3 Internal Audit will carry out the following anti-fraud related activities:

- Investigate allegations of fraud other than benefit / council tax reduction scheme fraud
- Respond to whistle-blowers allegations
- Consider the potential for fraud in every engagement

- Make recommendations to improve processes and controls
- Review fraud prevention controls and detection processes put in place by management